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C O N F I D E N T I A L SECTION 01 OF 02 HANOI 001617

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TAGS: [ECON](#) [EFIN](#) [EINV](#) [KCOR](#) [PGOV](#) [VM](#)
SUBJECT: CITIBANK SAVES LANDMARK DEAL DESPITE HEAVY-HITTING
OPPOSITION

REF: HANOI 1550 ("NEW CZARS IN THE MAKING?")

Classified By: Econoff Joaquin Monserrate.
For Reasons 1.4 (B) and (D).

¶1. (C) SUMMARY. Citibank appears poised to rescue a landmark \$100 million loan in Vietnam, after a rival financial company working with what Citibank believes are powerful government partners nearly sank the deal. The bank has had to sweeten the terms of the offer and may have to scale down plans to plus up the loan, but it is happy to have pulled out the deal from the brink. Citibank credits Embassy Hanoi's and its own full-court press with the President and the Prime Minister, among other government of Vietnam (GVN) officials, for the turnaround, but wonders now whether there will be negative fallout against the bank from its aggressive strategy. While the GVN is keen to reform its legal system, Citibank's travails highlight the challenges of doing business in a country that lacks effective legal remedies to challenge decisions that are often made in obscure circumstances. END SUMMARY.

A CAUTIONARY TALE FROM THE CITIBANK SAGA

¶2. (U) Earlier this year, state-owned shipping lines and port operator Vinalines fielded bids from several foreign banks for an initial loan of \$100 million, as part of a larger bond issue of as much as \$5 billion to develop and revamp its port and shipping facilities into the next decade. Citibank's bid, including a syndicated loan for \$100-200 million, with the possibility of a subsequent \$500 million bond issue, beat the other rival offers. This was Citibank's largest syndicated loan in Vietnam to date. (Note: A syndicated loan is one made by a group of lenders, who make up the syndicate, to a single borrower. One, in this case Citibank, acts as the loan arranger.)

¶3. (SBU) Vinalines and Citibank began to iron out the details and, by June 2007, the deal had moved so quickly that Vietnamese President Nguyen Minh Triet himself witnessed the signing in New York during his visit to the United States. The documentation review by Vinalines and the final approval of the syndicate were the last steps to finalize the deal, and neither was expected to be held up. However, problems emerged when the shipping company's management was reshuffled.

¶4. (C) According to Citibank's Vietnam managing director Charly Madan, the reorganization opened a "back door" for the new management to reopen discussions with one of the losing bidders about an alternative package to the winning Citibank tender. These fears were confirmed when the new Vinalines

Chief Executive Officer, Mai Van Phuc, told Citibank that he would not honor the almost-finalized agreement with Citibank, and would sign instead a \$500 to \$700 million loan and bond package with Credit Suisse. Phuc signed the rival deal on August 13 with much fanfare in Singapore, during a visit by the Vietnamese Prime Minister Nguyen Tan Dung, who witnessed the signing.

BRINGING A "DEAD DEAL" BACK TO LIFE

15. (C) Contacts in the GVN advised Citibank "not to make a fuss and keep quiet," while word in the financial markets began to spread that its "deal was dead." Madan persuaded the Vinalines Board of Directors to hold off on ratifying the Credit Suisse deal and allow Citibank to resuscitate the loan. In early August, Citibank also approached Embassy Hanoi for assistance. Coordinating efforts, both the bank and the Mission contacted the offices of the President, the Prime Minister and other government agencies to raise concerns and press Citibank's case.

16. (C) According to Citibank, the matter was further complicated because it pitted two Deputy Prime Ministers (DPM) against each other (Reftel). DPM Khiem (who also doubles as Foreign Minister), told Madan that he supported the Citibank deal but that Phuc's decision to dump Citibank in favor of the rival deal from Credit Suisse had the blessing of DPM Nguyen Sinh Hung. The motives that drove the rival camps were unclear, but Citibank is convinced that Hung is irretrievably corrupt, an assessment that two foreign business press reporters shared with Econoff on September 7. Citibank asserts that Prime Minister Dung himself was unaware of the prior deal with Citibank until September 1, when DPM

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Khiem informed him. At that point, he reputedly ordered that the Citibank deal go through. (The Credit Suisse transaction was apparently also allowed to go ahead.)

A COSTLY VICTORY?

17. (C) However, Vinalines and GVN officials told Madan that they would expect a sweeter deal in exchange for sticking it out with the bank. Thus, Citibank and the Vinalines Board of Directors went back to the drawing board to revise the initial offer. Citibank had to offer concessions on pricing and agree to support a micro-financing community development program, all amounting to about \$1.5 million, according to Madan. In addition, plans to raise up to \$200 million from the syndicated lenders may have to be scrapped, as some of Citi's partners may decide to walk away from the transaction.

Despite these setbacks, Citibank and Vinalines reached an agreement on September 11, and expect to ink the final deal on September 14.

18. (C) Citibank recognizes that having pushed hard to get the GVN to honor the deal may have come at the cost of having made influential enemies in the GVN. Despite this, Madan says he has no regrets. Citibank added that its reputation among its syndicated partners and with the markets required it to make the deal stick. He said that he wouldn't have been able to do so without the backing of Embassy Hanoi and is "extremely grateful" for these efforts.

COMMENT

19. (C) One of the most troubling aspects of the Citibank saga is how it reveals the turbulence in which key decisions are still sometimes made in Vietnam, and the lack of effective mechanisms with which to challenge dubious calls. Despite a very public signing in New York, scheming GVN insiders almost scuttled their country's largest deal to date with one of the world's largest bank. That some of these competing interests

may reach as high as the Deputy Prime Ministers is even more troubling. While the exact motives in this case are not clear, it raises cautionary flags for future transactions in the financial and banking sectors. We will continue to encourage the GVN's efforts to reform its legal system, and work closely with U.S. businesses and investors while the legal regime becomes more certain.

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